



**Suite 300 South
1711 West County Road B
Roseville, MN 55113
651-639-4000**

Minnesota Gambling Control Board

Annual Report of the Minnesota Gambling Control Board

**Fiscal Year
2012**

July 1, 2011 - June 30, 2012



Message from the Board Chair and Executive Director

November 8, 2012

The mission of the Gambling Control Board (Board) is to regulate lawful gambling in Minnesota, so that citizens are assured of the integrity of the industry and nonprofit organizations may continue to raise funds for charitable contributions.

The Board continues to provide education, outreach, and guidance to the lawful gambling industry through its ongoing programs, including:

- compliance reviews and site inspections,
- issuing perpetual licenses and permits for licensed organizations,
- continuing education classes throughout the state,
- speaking engagements at state-level conventions,
- gambling manager seminars,
- an individualized mentoring program,
- a comprehensive web site, and
- a quarterly newsletter.

This annual report provides information for the fiscal year beginning July 1, 2011, through June 30, 2012. Portions of the data were obtained from the Minnesota Department of Revenue.

Respectfully submitted,


William Goede, Chair


Tom Barrett, Executive Director

Gambling Control Board

Members and Staff

The Board has the power to issue, suspend, and revoke licenses. Under Minnesota Statutes, section 349.11, the Board's purpose is "to regulate lawful gambling, to insure the integrity of operations, and to provide for the use of net profits only for lawful purposes."

The Gambling Control Board is comprised of seven citizens. Five of the members are appointed by the Governor, and the Attorney General and Commissioner of Public Safety each appoint one member.

Members	City	Appointed by	Term
William Goede, Chair	Plainview	Governor	6/08 to 6/12
Norman Pint, Vice Chair	New Prague	Public Safety	7/11 to 6/15
William Gillespie, Secretary	St. Paul	Attorney General	9/11 to 6/15
Robert Hyde	Plymouth	Governor	7/09 to 6/13
Geno Fragnito	Woodbury	Governor	7/10 to 6/14
Susan McCarville	Hopkins	Governor	7/10 to 6/14
Gary Sigfrinius	Forest Lake	Governor	7/10 to 6/12

Executive Director Tom Barrett

FY 2012 expenditures: \$2,520,000

Board staff: 29 [FTE 27.6]

(Note: William Goede was reappointed by the Governor effective 7/1/12. James Nardone was appointed by the Governor to replace Gary Sigfrinius effective 7/1/12.)

Statement of Cash Receipts and Industry Overview

Cash Receipts

	Fee	Total Collected
Manufacturer license	\$9,000	\$ 90,000
Game approval/testing	25/100	183,400
Distributor license	6,000	78,000
Distributor salesperson license	100	9,600
Linked bingo game provider license	5,000	0
Organization license	350	409,500
Waivers of the organization license fee were granted to 14 organizations that expected to receive less than \$100,000 in gross annual receipts...\$4,900 waived.		
Gambling manager license	100	131,900
Premises permit	150	441,900
Regulatory fee [0.1% (.001) of gross receipts		1,075,400
Exempt Permit [up to 5 days of activity, total prizes valued at \$50,000 or less] ...	50/100	185,300
Total dedicated fees		\$2,605,000
Civil penalties and fines.....	vary	31,100
State gambling taxes, after refunds [collected by Department of Revenue]		41,433,000
Total civil penalties, fines, and taxes paid to state's general fund		\$41,464,100
Total taxes, fees, and penalties		\$44,069,100

INDUSTRY OVERVIEW

On June 30, 2012, the Minnesota lawful gambling industry consisted of:

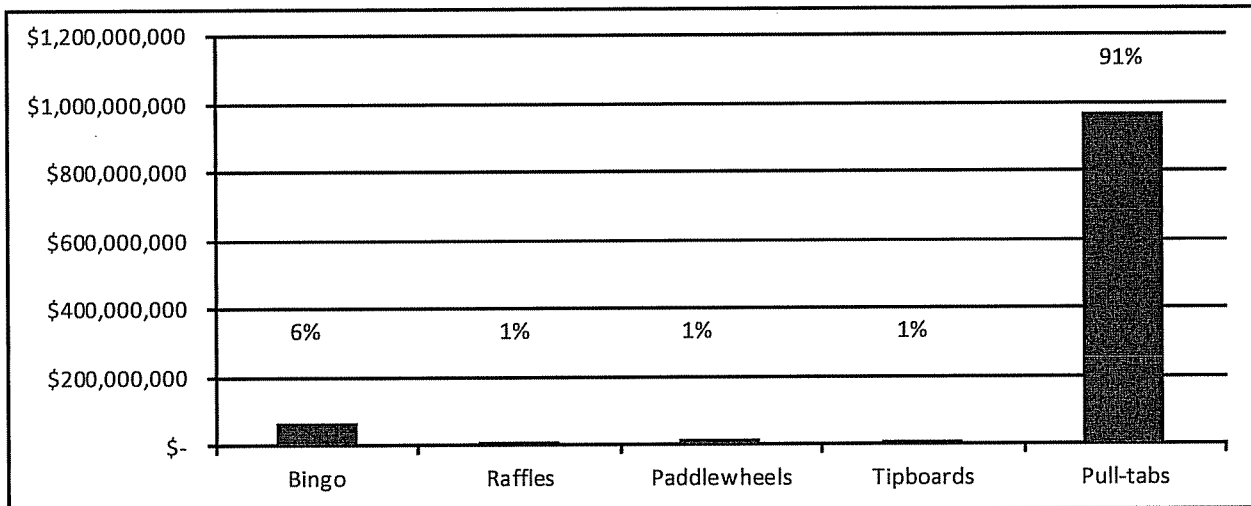
Licensees and Activities	Description
9 Manufacturers	Sold product to licensed distributors. (In FY12, 4,361 new games were approved.)
12 Distributors	Sold product to licensed lawful gambling organizations.
95 Distributor salespersons	Persons licensed to sell gambling equipment to nonprofit organizations.
0 Linked bingo game provider	Providing linked bingo games to licensed organizations.
1205 Nonprofit organizations	Nonprofit organizations licensed to conduct gambling at permitted premises.
TYPE OF ORGANIZATION	
	Number Percent
Fraternal - Eagles, Moose, Elks, Knights of Columbus	219 18%
Veterans - American Legion, VFW, & Auxiliaries	340 28%
Religious - Church/Cathedral	30 3%
Other nonprofit - Fire relief, hockey, Jaycees, Lions, baseball, athletic, rod & gun, sportsman, snowmobile, business/chamber/development, community, other	616 51%
TOTAL	1205 100%
1205 Gambling managers	Members of licensed nonprofit organizations responsible for supervising organizations' lawful gambling operations.
2776 Charitable gambling sites	Locations in Minnesota where lawful gambling was conducted.
2380 Exempt organizations	Nonprofit organizations that applied for authorization to conduct limited gambling of up to five days per calendar year conducted 3403 activities, with gross receipts of \$33,069,000 .
	Exempt activity Gross receipts Expense Profit
	Raffle \$31,329,000 \$13,890,000 \$17,439,000
	Pull-tabs 625,000 398,000 227,000
	Bingo 930,000 369,000 561,000
	Paddlewheels 131,000 61,000 70,000
	Tipboards 54,000 32,000 22,000
	TOTAL \$33,069,000 14,750,000 \$18,319,000
315 Excluded organizations	Nonprofit organizations that applied for authorizations to conduct 572 excluded bingo activities. Excluded bingo is conducted for four or fewer events, or conducted up to 12 consecutive days in conjunction with a county fair, civic celebration, or state fair.

Lawful Gambling Statistics

2012 Fiscal Year Summary

Gross Receipts (sales)			Prizes Paid	Net Receipts (gross less prizes)			% Payout	
Activity	FY12	Change from FY11	FY12	FY12	FY11	Change from FY11	FY12	FY11
Bingo	62,379,000	3.8%	46,930,000	15,449,000	14,629,000	5.6%	75.2%	75.5%
Raffles	7,952,000	2.7%	3,861,000	4,091,000	3,942,000	3.8%	48.6%	44.0%
Paddlewheels	14,887,000	7.7%	10,847,000	4,040,000	3,735,000	8.2%	72.9%	72.9%
Tipboards	7,840,000	8.0%	5,741,000	2,099,000	1,999,000	5.0%	73.2%	73.2%
Pull-Tabs	969,131,000	7.6%	802,020,000	167,111,000	157,318,000	6.2%	82.8%	82.8%
Interest Income	90,000	-18.9%	0	90,000	111,000	-18.9%	n/a	n/a
TOTALS	1,062,279,000	7.3%	869,399,000	192,880,000	181,734,000	6.1%	81.8%	81.7%

Comparison of Gross Receipts (sales) by Type



Ten-Year Comparison of Receipts and Prizes Paid with percent change from previous fiscal year

FY	Gross Receipts	% change	Prizes Paid	% change	Net Receipts	% change
12	1,062,279,000	7.3%	869,399,000	7.6%	192,880,000	6.1%
11	989,906,000	1.0%	808,172,000	1.0%	181,734,000	1.1%
10	980,144,000	-5.0%	800,370,000	-5.0%	179,774,000	-5.0%
09	1,031,699,000	-9.6%	842,507,000	-9.8%	189,192,000	-9.0%
08	1,141,443,000	-9.8%	933,591,000	-9.7%	207,852,000	-10.3%
07	1,265,707,000	-3.3%	1,033,863,000	-3.3%	231,844,000	-3.0%
06	1,308,264,000	-4.8%	1,069,325,000	-4.8%	238,939,000	-4.8%
05	1,373,783,000	-3.1%	1,122,783,000	-3.3%	251,000,000	-2.5%
04	1,418,109,000	0.0%	1,160,753,000	-0.3%	257,356,000	1.5%
03	1,418,200,000	-1.2%	1,164,591,000	-1.0%	253,609,000	-2.1%

Lawful Purpose Expenditures

Proceeds from lawful gambling may be used for lawful purpose expenditures (contributions) in the following categories.

Youth activities



Wildlife management projects, grooming and maintaining snowmobile and all-terrain vehicle trails approved by MN Department of Natural Resources, and monitoring surface water quality



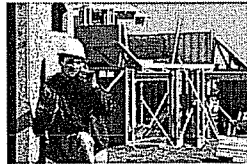
Recognition of military service



Scholarship funds, and private or public nonprofit educational institutions



Repair and maintenance projects of organization-owned buildings



Congregate dining, nutritional programs, or food shelves for the disabled or persons age 62 and older



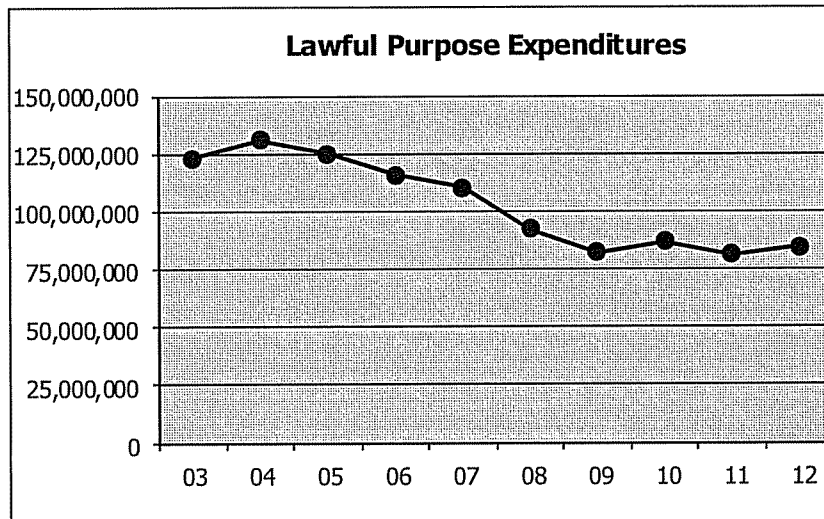
Programs and projects by the United States, the state of Minnesota, or local units of government

Other Lawful Purpose Expenditure Categories

- Community arts organizations or program sponsorships
- Religious purposes
- Donations to or expenditures by nonprofit organizations designated by the Internal Revenue Service as 501(c)(3) organizations or 501(c)(4) festival organizations
- Relieving effects of poverty, homelessness, or disabilities
- Treatment for compulsive gambling
- Recognition of humanitarian service
- Surface water quality testing
- Real estate taxes
- State, local, and federal gambling taxes; state lawful gambling license & regulatory fees
- Specific utility costs by licensed veterans and fraternal organizations
- Membership events by licensed veterans organizations

Lawful Purpose Expenditures

12	\$ 84,923,000
11	\$ 81,336,000
10	\$ 87,025,000
09	\$ 82,247,000
08	\$ 92,311,000
07	\$110,144,000
06	\$116,011,000
05	\$124,974,000
04	\$130,944,000
03	\$123,138,000



	FY 2012	FY 2011	% Change
Available for Lawful and Charitable Contributions	\$ 43,490,000	\$ 44,278,000	-1.8
State Gambling Taxes Paid	41,433,000	37,058,000	11.8
Gross receipts state tax	16,452,000	15,531,000	5.9
Net receipts state tax	2,012,000	1,910,000	5.3
Combined receipts state tax	22,969,000	19,617,000	17.1
TOTALS	\$ 84,923,000	81,336,000	4.4

State Gambling Taxes

	Taxes paid	Refund	Net taxes (after refund)	Net taxes as % of	
				Gross receipts	Net receipts
12	\$48,808,000	7,375,000	41,433,000	3.90%	21.48%
11	\$43,943,000	6,885,000	37,058,000	3.74%	20.39%
10	42,628,000	6,820,000	35,808,000	3.65%	19.92%
09	44,761,000	6,917,000	37,844,000	3.67%	20.00%
08	50,019,000	7,328,000	42,691,000	3.74%	20.54%
07	56,461,000	7,477,000	48,984,000	3.87%	21.13%
06	58,519,000	7,381,000	51,138,000	3.91%	21.40%
05	61,621,000	7,333,000	54,288,000	3.95%	21.63%
04	63,539,000	6,900,000	56,639,000	3.99%	22.01%

The three state gambling taxes included as lawful purpose expenditures are:

Gross Receipts Tax

1.7 percent of the gross receipts on pull-tab and tipboard games.

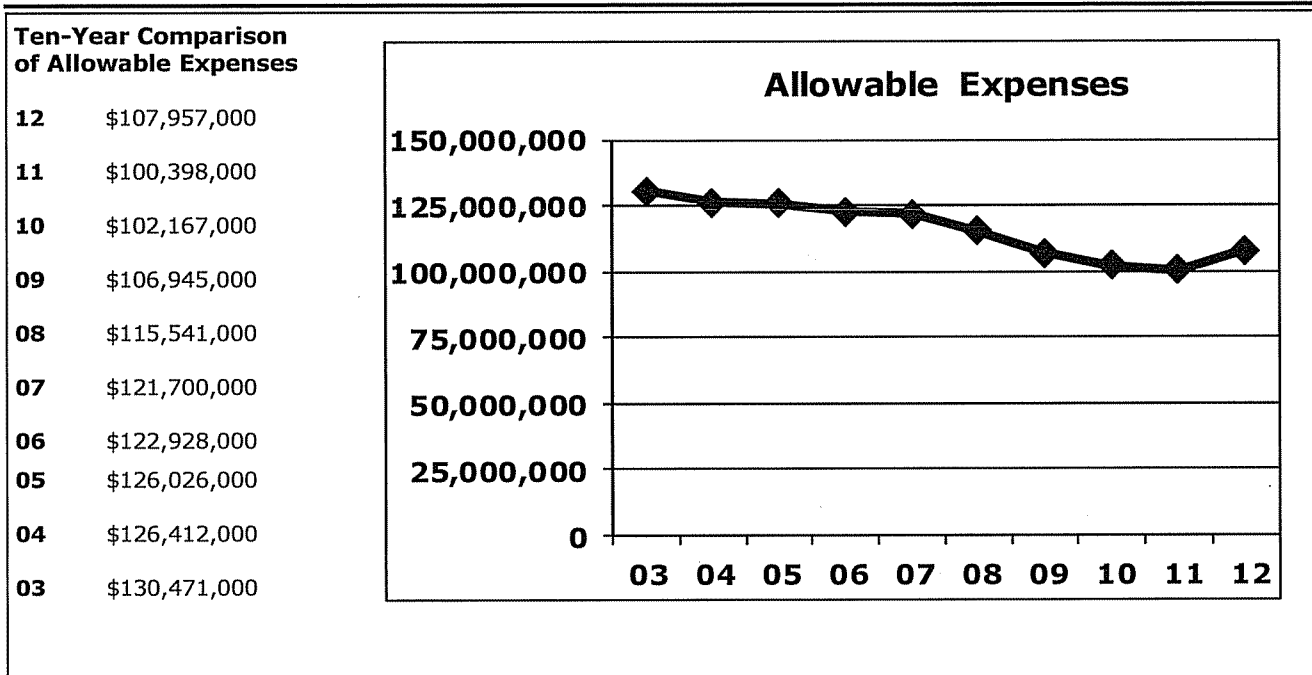
Net Receipts Tax

8.5 percent on the net receipts on bingo, raffles, and paddlewheels.

Combined Receipts Tax

A progressive tax calculated on the gross receipts from pull-tab games, tipboards, and interest.

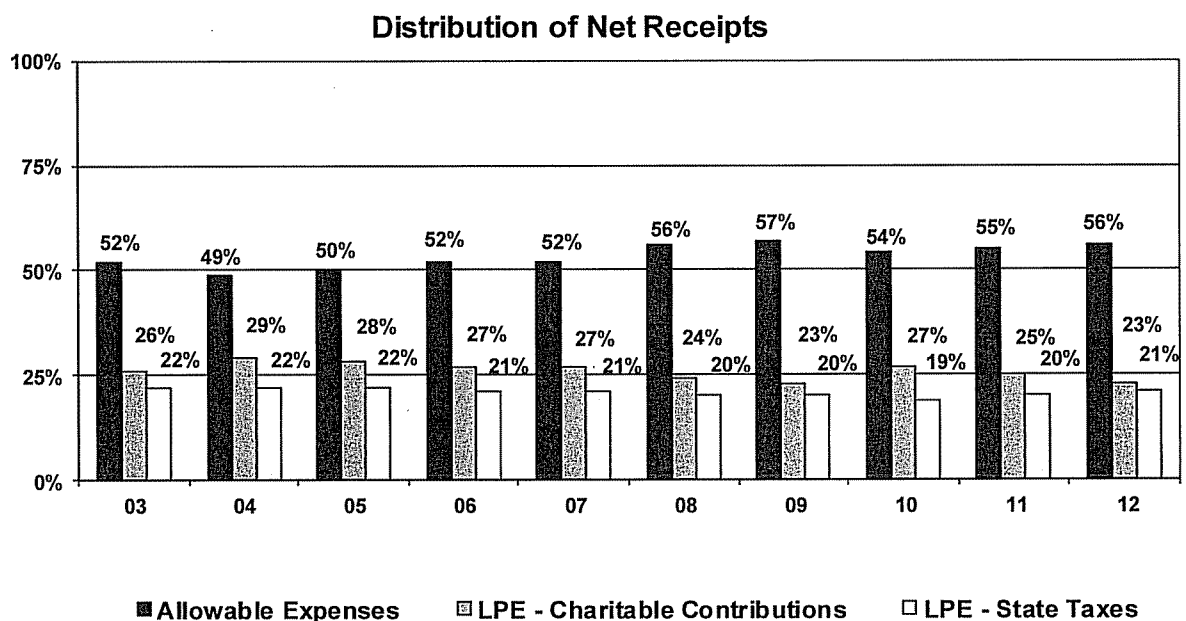
Allowable Expenses



Allowable expenses are operating costs incurred by organizations in their conduct of lawful gambling. Examples include product costs, rent to bar owners, compensation, accounting fees, insurance, and supplies.

Required percentages

Organizations are required to spend at least 30% of their net profits on lawful purposes, including taxes. Failure to meet the requirement subjects the organization to sanctions.



Government

Legislative Changes

Major changes for the lawful gambling industry took effect on July 1, 2012, with the legislative authorization of electronic pull-tab games and electronic bingo games and reductions in the lawful gambling tax rates. For more information, go to www.gcb.state.mn.us.

Rule Changes

The Board last completed extensive revisions to its rules that became effective March 1, 2011. Changes included manufacturing standards for promotional tickets, electronic bingo devices, and pull-tab dispensing devices. The Board also addressed statutory changes that occurred in 2007, 2008, and 2009.

Due to the legislative changes that took effect on July 1, 2012 (as noted above), the Board has the authority to promulgate any rules that may be necessary for electronic pull-tab games and electronic bingo games.

Local Government

VOLUNTARY CONTRIBUTIONS

- Organizations may provide voluntary contributions to units of government (under lawful purpose code A10) for government programs and projects of the United States, the state of Minnesota, or local units of government.
 - In fiscal year 2012, a total of \$7,946,000 was contributed to units of government for "voluntary" contributions allowed under code A10.
- The city or county is not required to report the receipt of these contributions to the Board.

10% CONTRIBUTION FUND, WHEN MANDATED BY ORDINANCE

As established by ordinance, a city or county (not a township) may require an organization to contribute up to 10% per year of net profits to a fund that the city or county administers.

- The city or county may only spend the fund for charitable contributions (Minn. Stat. 349.12, subd. 7a), or for police, fire, and other emergency or public safety-related services, equipment, and training.
- The fund may not be used for the payment of pension obligations or general government functions.
- A licensed organization that contributes to the 10% fund may not be a beneficiary of the fund.
- A city or county that has a 10% fund must submit a report to the Gambling Control Board by March 15.

√ In calendar year 2011, 63 cities required 10% fund contributions as mandated by their city ordinance.

- A total of \$811,000 was contributed to cities for 10% funds.
- Cities reported a balance of \$1,420,000 for future distribution.

To see the per city detail, go to: http://www.gcb.state.mn.us/PDF_Files/LUG%20report%202012.pdf

Education Program

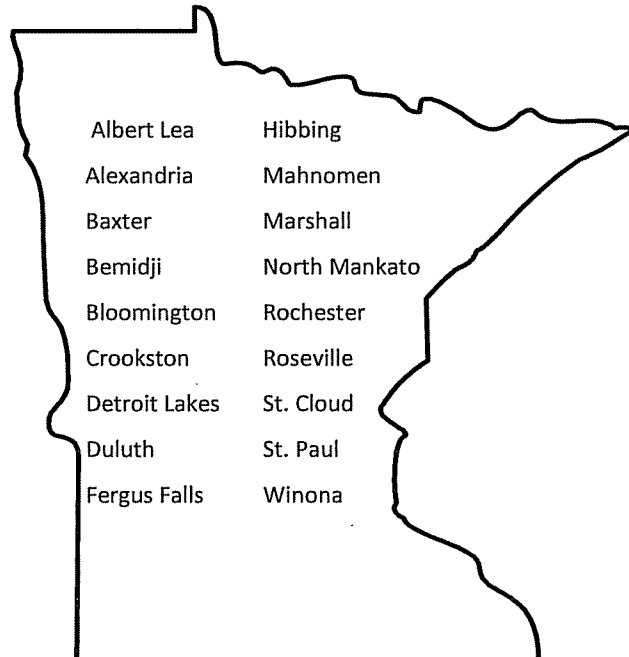
An integral part of the Board's mission is educating the lawful gambling industry. To ensure the integrity of the industry, education is provided to organizations through the following opportunities.

Continuing Education Classes

Gambling managers are required to attend one class each calendar year.

Continuing education classes are conducted at various locations throughout the state free of charge and are open to the public. The chief executive officer, members, and employees of the organizations are invited as well.

56 continuing education classes were provided during the fiscal year 2012. Topics include: internal controls, Legislative updates, lawful expenditures, illegal gambling, and reporting requirements.



OTHER EDUCATION PROGRAMS

Gambling Manager Seminars

Gambling manager seminars are conducted each month by Board staff. Each seminar consisted of two days of training and included information on statutes, rules, conduct of lawful gambling, internal controls, reporting and licensing requirements, and the organization's responsibilities.

Mentoring

The Board's mentoring program provides one-on-one training to organizations on how to properly manage their gambling operation and comply with all reporting requirements. The program also provides guidance to licensed organizations that have experienced serious operational difficulties. New organizations or existing organizations with a new gambling manager may voluntarily participate in this program.

Staff also participated in numerous speaking engagements throughout the state at conferences and conventions, such as American Legion, VFW, Eagles, and Lions.

Education Program


Gaming News

The Board publishes the quarterly *Gaming News* newsletter on its web site at www.gcb.state.mn.us. The newsletter is mailed to all licensed gambling managers.

Gaming News provides information on compliance, licensing, and education issues.

Gaming News also includes information on legislative and rule changes, scheduled continuing education classes, forms, and Board activities.

The Departments of Revenue and Public Safety and the Internal Revenue Service periodically contribute articles for the newsletter.



GAMING NEWS
JANUARY/FEBRUARY/MARCH 2012

Minnesota Gambling Control Board

DIRECTOR'S COLUMN
Tom Barrett, Executive Director

Electronic Pull-tabs; Electronic Linked Bingo; Viking stadium funding, etc...

Once again a hot topic at the capitol this year is gambling. In early February we were already tracking about 20 legislative bills that had some aspect of gambling included in the language. While it is too soon to know what direction our legislative leaders will take, the Board has been involved in providing some fiscal estimates and fiscal impact on the various proposals but remains neutral on the policy of electronic gaming or other gambling options.

I have received a wide range of input and comments from charitable gaming industry representatives and gambling managers on the various legislative proposals (which is appreciated). But, it is also my hope that the industry representatives share those comments and issues with the policy-makers at the capitol.

Receipts are up!

One bit of good news for the charitable gaming industry is the fact that gross receipts have increased notably for the months of November and December 2011 when compared to the same time period in 2010.

For December 2011, gross receipts increased by 15% over receipts reported for December 2010. As a result, total gross receipts for charitable gaming in Minnesota for calendar year 2011 were over \$1 billion dollars.

Bar bingo continues to gain in popularity and special "happy hour" events appear to be a win-win for charity and bar owner...

Email your monthly reports???

Board staff is working on a very simplified program that will enable licensed organizations to electronically email their monthly reports to the Board!

We are still in development stages and will continue in our efforts. Next step will be to meet with existing software vendors in the industry to have the data they currently collect "drop" into our format (with little or no added effort).

At this point it appears to be a very workable format, and the result will eliminate the need for licensed organizations to mail in their reports and schedules -- a cost and time savings for all! If all goes well, our target date for implementation of this FREE program will be July 2012 so that we can capture a full fiscal year of activity. Keep an eye out for developments!

Citations coming...

If your organization had trouble filing their tax reports on time, be prepared to receive a citation. The Department of Revenue is sending the Board a list of organizations that failed to file their monthly tax reports for calendar year 2011. We're not focusing on the "one-timers" -- the focus is more like the three-strike factor.

Resolution to this problem is simple: File on time or seek an extension.

Monthly board meetings
are open to the public
and held at:
Gambling Control Board
Suite 300 South
1731 Wood County Road B
Roseville, Minnesota.

Meetings start at 10 am.
Monday, March 19, 2012
Monday, April 16, 2012
Monday, May 27, 2012
Monday, June 18, 2012

The agenda is posted at:
www.gcb.state.mn.us

Lawful Gambling Manual

The *Lawful Gambling Manual* is a handy reference guide for CEO's, gambling managers, and organizations--whether new or experienced.

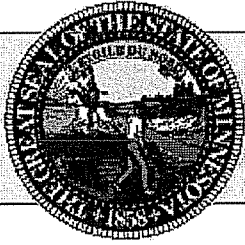
The *Manual* provides information on statute and rule requirements in an easy to understand format, and was last updated in 2012.

The *Manual* is divided into chapters that are easily referenced for:

- ✓ licensing requirements,
- ✓ conduct for each form of lawful gambling: pull-tabs, bingo, raffles, paddlewheels, and tipboards,
- ✓ managing gambling equipment inventory,
- ✓ guidelines for internal controls of the gambling operation including accounting and administrative controls, with a section on monthly oversight,
- ✓ how net receipts may be spent, and
- ✓ a cross-reference index.



"Everything you always wanted to know about lawful gambling..." can be found on the Board's web site at:



www.gcb.state.mn.us

BOARD INFORMATION

- ✓ Meeting dates
- ✓ Agenda
- ✓ Summary of monthly Board meetings
 - actions taken on requests and gambling equipment

PUBLICATIONS

- Gaming News
- CEO Guidebook
- Illegal Gambling
- Lawful Gambling Manual
- Who May and May Not Play
- Raffle Ticket Requirements

LOCAL GOVERNMENT

- authority and restrictions
- local tax or investigation fee
- contribution fund reports

LINKS

- Links to other agencies
- Link to legislature
- E-mail links to staff

EDUCATION AND OTHER INFORMATION

"We're here to help"



- Continuing education; training dates
- Request for mentoring
- Forms
- Lawful gambling statutes and rules
- List of licensees
 - nonprofit organizations
 - distributors and manufacturers
 - linked bingo game providers

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This publication will be made available in alternative format
(large print, Braille) upon request.